CANADIAN PIONEER ENERGY INC.

CPE

1988 ANNUAL REPORT

Corporate Profile

Canadian Pioneer Energy Inc. (formerly Canadian Pioneer Oils Ltd.) is a Calgary based, public oil and gas corporation listed on the Alberta Stock Exchange. The Corporation was incorporated in Alberta in 1978. It is engaged in the exploration, development, production and acquisition of hydrocarbon reserves in Canada. On September 30, 1987 the common shares of the Corporation were consolidated on a one for four basis. At June 30, 1988 there were 3,791,530 Class A Common Shares, 21,000 First Preference Series A Shares and 598,900 Second Preference Series B Shares outstanding. Argyll Energy Corporation, a Canadian public oil and gas corporation is the major shareholder, owning 2,012,964 Class A Common Shares (53%).

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held in the Glencoe Room at the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta on Thursday January 5, 1989 at 2:30 p.m.

Table of Contents

Abbreviations

Throughout this report standard oil and gas abbreviations have been used as follows:

MSTB	Thousand Stock Tank Barrels
BOPD	Barrels of Oil Per Day
BCF	Billion Cubic Feet
MMCFD	Million Cubic Feet Per Day
MCFD	Thousand Cubic Feet Per Day
D&A	Dry and Abandoned
WI	Working Interest

Financial and Operating Summary

Financial ($000)	1988	Year Ended 1987	% Increase (Decrease)
Gross revenue	$ **2,730**	$ 1,668	64
Net revenue	**2,516**	1,535	64
Funds provided by operations	**904**	27	3,248
Preferred share dividends	**584**	36	1,522
Funds available to common shareholders	**17**	(215)	
Depletion and depreciation	**900**	539	67
Writedown of oil and gas properties	**1,000**	-	
Loss attributable to common shareholders	**1,580**	693	128
Long term debt	**3,000**	5,250	(43)
Working capital	**1,100**	(641)	
Book value of assets	**13,166**	9,512	38
Shareholders' equity	**7,111**	2,797	154
Common shares outstanding	**3,791,530**	2,944,591*	29
Capital expenditures	**2,311**	849	172

**Restated due to consolidation of common shares on a one for four basis, effective September 30, 1987.*

Operating			
Production			
Gas - thousand cubic feet	**1,207,055**	768,052	57
- thousand cubic feet per day	**3,307**	2,104	57
Oil - barrels	**29,930**	18,685	61
- barrels per day	**82**	51	61
Reserves (proven and probable)			
Gas - thousand cubic feet	**16,481,000**	15,885,000	4
Oil - barrels	**276,200**	253,900	9

Undeveloped Land Holdings			
Gross acres	**70,441**	70,723	0
Net acres	**25,653**	25,169	2

Cash position is defined as cash and term deposits net of bank advances.

Report to the Shareholders

The Canadian oil industry experienced a return to uncertainty due to restrictions in the marketing of natural gas and renewed weakness in the price for both oil and gas during the Corporation's 1988 fiscal year.

However, despite the difficult environment, Canadian Pioneer made impressive gains in both natural gas and oil production, and in revenues. Most of the revenue gains resulted from the Corporation's success in marketing natural gas at reasonable prices. During the first half of fiscal 1988 (the summer and fall of 1987) Canadian Pioneer sold up to 2.0 MMCFD to California at net-back prices ranging from $1.50-$1.70/mcf, at a time when the local spot market price was $0.90-$0.95/mcf. During the latter part of the 1988 fiscal year the Corporation sold increasing volumes to local spot markets at a price of $1.30 per mcf.

Canadian Pioneer has continued to develop additional future markets for its substantial gas reserves. The most important achievement in this regard was the signing of a new long term gas contract to sell natural gas to a new co-generation facility in Massachusetts, U.S.A. for 20 years, with deliveries to commence in late 1989.

Improved Operating Results

Gas and oil production increased significantly during fiscal 1988. Daily average gas production was 3.3 million cubic feet, a 57% increase over the 1987 average of 2.1 million cubic feet per day, and oil production averaged 82 barrels per day, a 61% increase over the 51 barrels per day produced in 1987.

The production increases resulted in a net revenue increase to $2.5 million, a 64% improvement over the $1.5 million for 1987.

Funds provided by operations increased dramatically from $27,000 ($0.01 per share) in 1987 to $904,000 ($0.28 per share) in 1988.

Non-cash charges to earnings of $1,900,000, which comprised $900,000 for depletion and depreciation and a $1,000,000 writedown of the value of oil and gas properties, resulted in a net loss of $1,580,000 attributable to the common shareholders. The writedown occurred as a result of a compliance with the Canadian Institute of Chartered Accountants guidelines on oil and gas accounting. There was no significant change in the Company's physical reserves.

Reserves Maintained

The Corporation's net reserves of hydrocarbons at June 30, 1988 were maintained and actually showed slight increases after production. Proved and probable gas reserves were increased by 596 MMCF to 16.481 BCF. Oil reserves were increased by 22,300 barrels even though 29,930 barrels were produced. Canadian Pioneer's capital program therefore added 1.803 billion cubic feet of gas and 52,230 barrels of oil in new reserves.

Improved Financial Position

In August 1987 the Corporation completed a public financing through the sale of 600,000 Second Preference, Series A Shares and 500,000 Gold Purchase Warrants. The Second Preference, Series A Shares have a dividend rate of $0.96 per annum, and are convertible to common shares at $1.52 per share until May 31, 1991 and thereafter at $1.90 per share until May 31, 1994. The

Gold Warrants entitle the holder to purchase 0.02 ounces of gold per warrant at the equivalent of $550 (U.S.) per ounce until May 31, 1990.

The net proceeds of $5,284,546, from this financing in conjunction with $810,000 raised through the issuance of 839,679 flow through common shares were added to working capital and partially directed to fund the 1988 capital program and reduce debt obligations.

In 1988 the long term bank debt was reduced from $5.25 million to $3 million, $200,000 of First Preference, Series A Shares were redeemed, and at June 30, 1988 the working capital was $1.1 million compared with a deficiency of $641,000 at June 30, 1987.

Subsequent to the 1988 fiscal year end, the long term bank debt has been further reduced to $2.5 million.

Change In Major Shareholder

On June 21, 1988, Northgate Exploration Limited, vended its controlling common shareholding in the Corporation to Argyll Energy Corporation, a Canadian public oil and gas corporation, for shares of Argyll. Through this transaction Argyll now owns 2,012,964 common shares of Canadian Pioneer or 53% of the total number of common shares outstanding. This three Company transaction also resulted in Argyll acquiring controlling interest (90%) in Normandie Resource Corporation from Northgate Exploration Limited. The boards of directors of Argyll and Canadian Pioneer are currently examining all business opportunities available to the corporations, including that of a possible merger. The staffs of all companies including Canadian Pioneer were housed in one office effective November 1, 1988 in order to effect savings to general and administration costs. Reduction in personnel and other cost areas are under way.

Mr. Patrick J. Hughes and Mr. John F. Kearney have both resigned as directors of the Corporation. Their contribution to the Corporation over the past four years is gratefully acknowledged. Mr. Kearney will continue to be involved in Canadian Pioneer through his presence as a director of Argyll.

Three directors of Argyll have been appointed to the Canadian Pioneer board. They are Mr. James W. Beckerleg, Mr. W. Gordon Black and Mr. Bernard F. Kelly. Mr. Beckerleg has also been named Chairman of the Board and Chief Financial Officer. In addition, Mr. John G. Goemans has been named Vice-President, Production and Engineering to strengthen the management of this area.

Outlook for 1989

The demand for Western Canadian conventional oil is expected to remain strong, although the price outlook is uncertain. Certain international events including a meeting of OPEC later in the year may provide a clearer outlook for the following months.

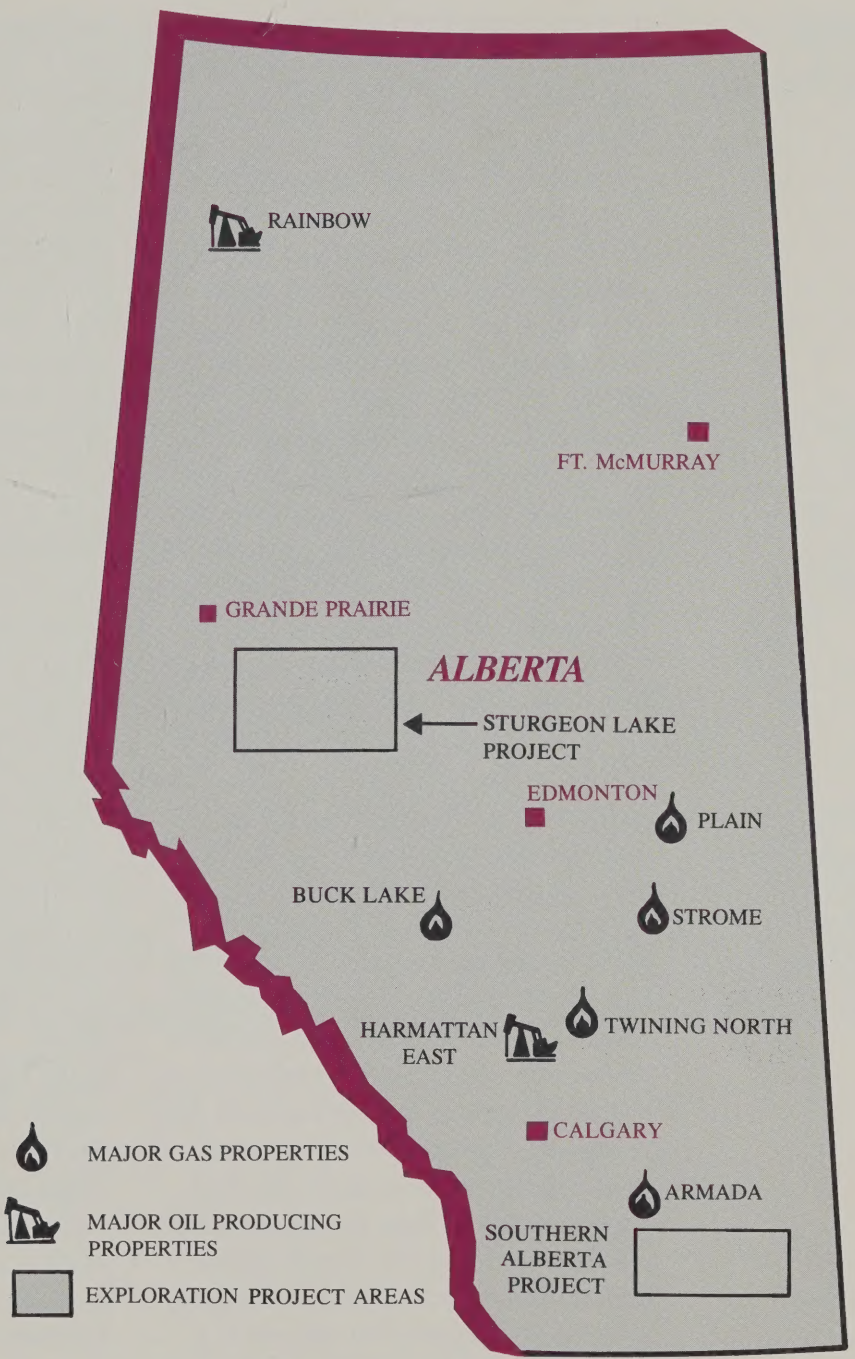
The demand for Western Canadian natural gas is expected to increase, and the current trend of improving prices is expected to be

maintained during this winter. This brighter outlook for natural gas is due to the anticipated increased demand from the United States, the settlement between Western Gas Marketing Ltd., Western Canadian producers and Eastern Canadian buyers and improved short term spot prices.

Canadian Pioneer is primarily a gas company in relationship to hydrocarbon reserves and production. The improvement in demand and stability in gas prices should enable the Corporation to increase revenues in 1989. Although the Canadian and Alberta Governments have recently announced extension of the CEDIP and royalty rebate programs, capital expenditures will be reduced from 1988 levels. We are encouraged by this government support for conventional production by smaller Canadian producers and the program extensions will improve the exploration environment during 1989. Capital expenditures will be concentrated on finding, developing and marketing gas. A lesser amount of capital expenditures will be aimed towards high potential light oil prospects in Alberta.

Mr. James W. Beckerleg
Chairman
November 25, 1988

Principal Properties



Exploration and Development

Exploration activities were increased significantly in 1988 as a result of the Corporation's success in raising capital funds.

The exploration program had two major focuses in 1988. The first was to drill for gas in areas which were close to tie-in points in order that gas discovered and developed could be marketed quickly. Secondly, efforts were made to explore for light oil in Alberta in areas where drilling depths and costs were moderate and where operations could be carried on throughout the year. For these reasons Canadian Pioneer's exploration and development program was concentrated in Southern and Central Alberta.

New gas discoveries were made and placed on stream at Armada in Southern Alberta and at Twining and Buck Lake in Central Alberta.

In Southern Alberta an integrated geological-geophysical study was conducted with two industry partners in an area prospective for oil in the Cretaceous Manville, Jurassic Sawtooth and Devonian Nisku formations. A review of existing seismic data was conducted and additional seismic data was acquired through purchase and the shooting of new seismic in the field. A total of 15 prospects and/or prospect leads were outlined, and lands have been acquired on six of them through purchase at Crown land sales and through farmin drilling. Two wells were drilled subsequent to the 1988 fiscal year end and one is a potential oil well. Evaluation of the existing lands and prospects is continuing and additional drilling is planned for 1989.

In late fiscal 1988 the Corporation initiated the Sturgeon Lake geological study in West-Central Alberta. The study area is prospective for multi-zone gas and oil at moderate depths ranging down to 2,000 meters. The focus of the study is the Triassic which is a prolific producer in the area. Several prospects have been identified to date and further evaluation of the area may lead to land acquisition and possible drilling in 1989.

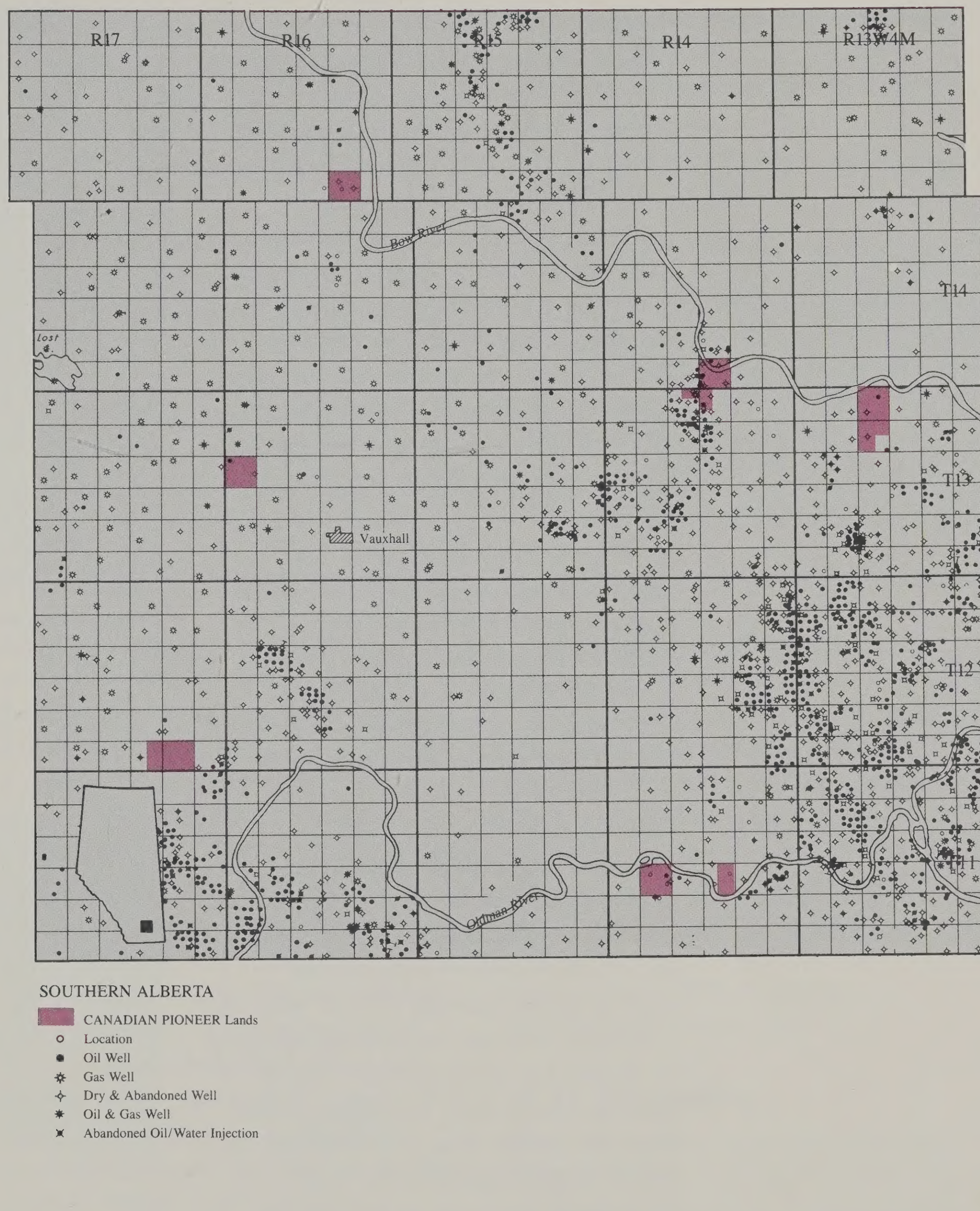
The Corporation plans to continue the same exploration approach in 1989 as gas markets and pricing remain attractive at this time. Development for gas is continuing in the Armada and Twining areas of Alberta.

Southern Alberta Exploration Project

The Corporation conducted an exploration joint venture (Canadian Pioneer 33-1/3% W.I.) in this area in 1988. At Enchant, Canadian Pioneer developed several Nisku oil prospects. The Pioneer et al Enchant 6-2-15-16 W4M well (Canadian Pioneer 33-1/3% W.I.) was recently drilled to 1,440 meters to test one of these prospects for Nisku oil. The well was not successful in the Nisku but was cased as a potential producer for an uphole zone. After further evaluation additional prospects may be drilled.

In the Taber area Canadian Pioneer recently purchased acreage at a Crown land sale that has development locations prospective for Taber and Glauconitic oil. This acreage is under option to a company which is drilling an offset well and which could elect to drill on the Corporation's land under a farmout deal.

The Corporation is planning to shoot detailed seismic to identify an exploratory location potential for Glauconitic and Taber oil on recently purchased Crown land in the Retlaw area. Other prospects have been developed with acreage acquired at Alderson, Lomond East and Grand Forks.



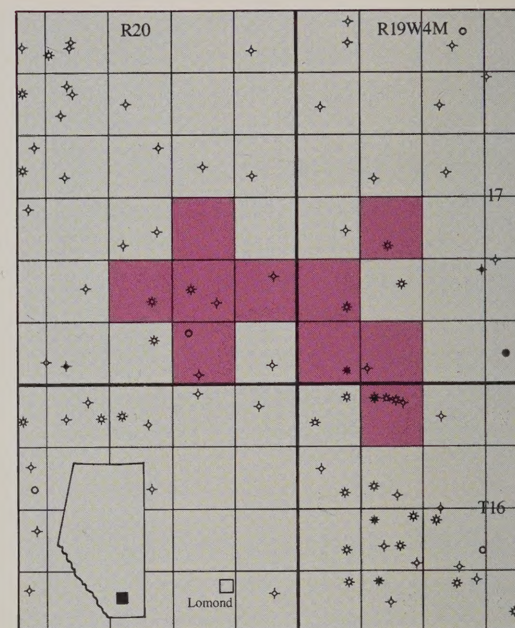
SOUTHERN ALBERTA

- CANADIAN PIONEER Lands
- ○ Location
- ● Oil Well
- ☼ Gas Well
- ✧ Dry & Abandoned Well
- ✱ Oil & Gas Well
- ✖ Abandoned Oil/Water Injection

Armada Area, Alberta

In the Armada area the Corporation has an average 30% working interest in three producing Bow Island gas wells and three shut-in gas wells. The three producing gas wells, two of which are dual zone producers, were placed on production in 1988. Gas production from this area has averaged 1.8 MMCFD since the first well was placed on production in September, 1987. Development activities are continuing in the Armada area with certain shut-in wells expected to be put on production in fiscal 1989 through tie-ins to production facilities.

In 1988 the Corporation drilled five exploratory and two development wells in this area resulting in five gas wells. Canadian Pioneer and partners are currently re-entering a well previously abandoned by another operator in the early 1980's to test for gas at shallow depths.



ARMADA AREA, Alberta

- CANADIAN PIONEER Lands
- ○ Location
- ● Oil Well
- ☼ Gas Well
- ✧ Dry & Abandoned Well
- ✱ Oil & Gas Well
- ✖ Abandoned Oil/Water Injection

Drilling Activity

Canadian Pioneer participated in the drilling of 27 wells in 1988, a large increase over the 12 wells drilled in 1987. Eighteen of the wells drilled were exploratory resulting in the discovery of 7 gas wells and 2 oil wells. New gas reserves were developed in the Armada and Buck Lake areas of Alberta. The oil wells were drilled in the Hays and Stettler areas of Alberta and the Winter area of Saskatchewan. Nine development wells were drilled with gas wells completed in the Armada area and oil wells in the Hays area of Alberta.

Wells Drilled

	Canada			*United States*			
	Oil	Gas	D&A	Oil	Gas	D&A	TOTAL
1984	-	7	4	3	-	1	15
1985	6	10	11	2	1	1	31
1986	8	10	10	-	2	1	31
1987	3	5	3	-	1	-	12
1988	5	8	14	-	-	-	27

Land

The Corporation focused its land activity in specific areas where existing operations were established and also where integrated geological-geophysical studies indicated attractive prospects.

Successful drilling resulted in 3,362 gross acres (687 net acres) being added to the development category. Canadian Pioneer's aggressive exploration program resulted in the purchase of 15,353 gross acres (4,952 net acres) during the year. Rationalization of older holdings and normal expiries led to a reduction of 14,069 gross acres (4,536 net acres) in the undeveloped land category.

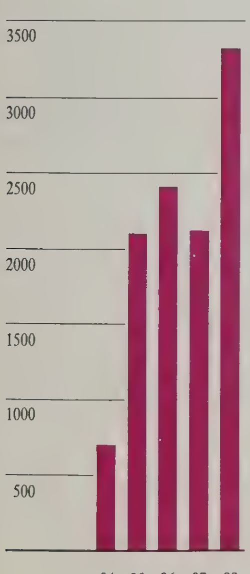
Thus the Corporation's net undeveloped land holdings at June 30, 1988 were virtually unchanged numerically from those of the previous year.

The Corporation's land holdings as at June 30, 1988 were as follows:

	Developed		*Undeveloped*	
	Gross Acres	*Net Acres*	*Gross Acres*	*Net Acres*
Canada	83,458	8,105	70,451	25,653
United States	1,920	128	-	-

Production and Operations

Gas Production
(mcfd)



Significant increases in gas and oil production occurred during 1988. Gas production averaged 3.3 million cubic feet per day in 1988, a 57% increase over the 2.1 million cubic feet per day averaged during 1987. Oil production averaged 82 barrels per day, a 61% increase over the 51 barrels per day averaged during 1987.

The gains in gas production resulted from new gas being placed on stream at Armada and Twining, Alberta. The gas produced was marketed to California through the Corporation's contract with Bonus Gas Processors Ltd. and to other brokers. The oil production increases resulted from successful drilling in the Hays and Stettler areas of Alberta, and Winter, Saskatchewan.

At June 30, 1988 the Corporation had interests in 52 producing gas wells and 91 producing oil wells.

Harmattan East Area, Alberta

Canadian Pioneer owns a 0.9% working interest in the Harmattan East Viking Unit No. 1 which contains 68 Viking oil wells. This property is the Corporation's largest oil property in terms of reserves with 84,000 barrels of proven reserves and an additional 24,000 barrels of probable reserves. Production from this unit has recently been averaging 2,300 barrels of oil per day (21 BOPD net to the Corporation). The production rate has increased steadily during the past year as the producing zone responded to water injection, which was commenced in 1986 to implement a secondary recovery scheme.

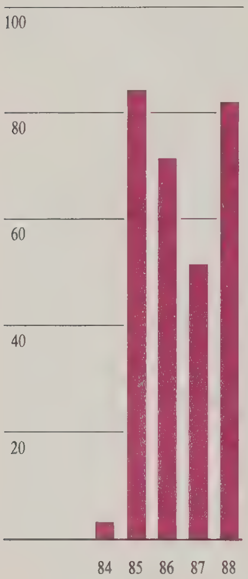
Plain Area, Alberta

The Corporation's largest gas producing property is located in the Plain area with 2.58 BCF of proven gas reserves and 1.85 BCF of probable additional reserves. The gas reserves in this area are marketed through TransCanada PipeLines Limited.

The 6-19-52-13W4M and the 13-8-52-13W4M gas wells, in which the Corporation owns a 37.5% working interest, produced at average rates of 1,233 and 525 MCFD respectively in 1988.

The 6-17-52-13W4M gas well, in which

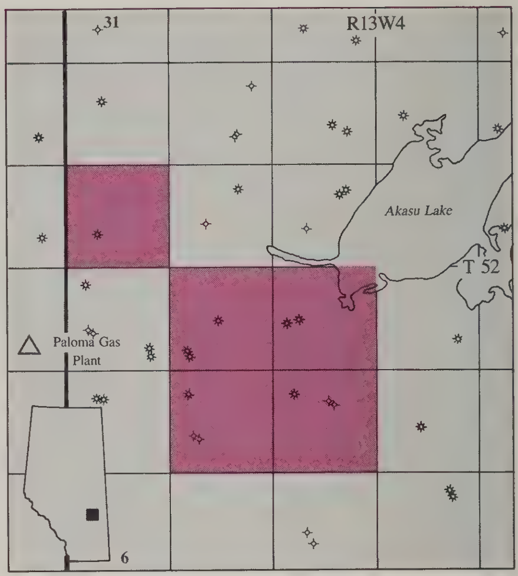
Oil Production
(bopd)



Canadian Pioneer has a 25% working interest, produced at an average rate of 465 MCFD in 1988. The 4-17-52-13W4M well, which was tied-in for production in early 1987, is currently producing at an average rate of 235 MCFD.

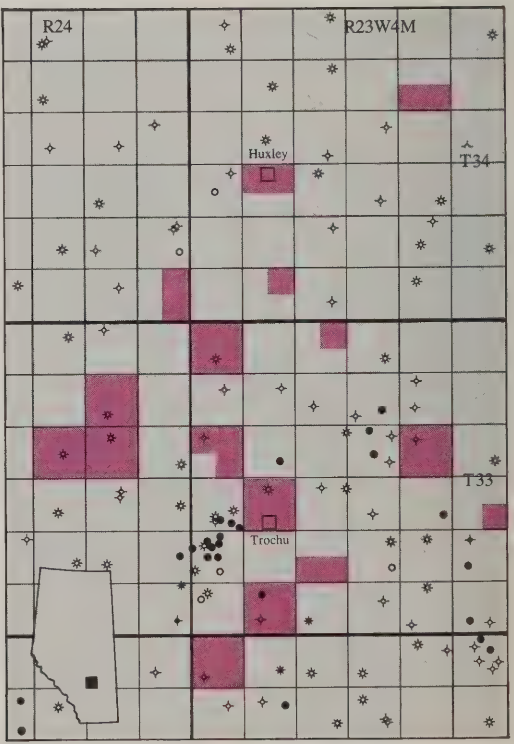
Twining North Area, Alberta

Canadian Pioneer has an interest in two producing and five shut-in gas wells in the Twining North area. The Pioneer Twinn 14-23-33-24 W4M gas well, in which Canadian Pioneer has a 32.94% working interest, has produced 1.1 billion cubic feet since going on stream in December, 1986, and is currently producing at a rate of 1.75 MMCFD. The Pioneer Twinn 14-17-33-23W4M gas well, in which Canadian Pioneer has a 42.2% working interest, was placed on production in February, 1988 and is currently producing at an average rate of 500 MCFD. The Corporation recently participated in the drilling of three wells in this area resulting in two shut-in gas wells. After further testing the wells may be tied in for production. Further development drilling for oil and gas may take place in this area in 1989.



PLAIN AREA, Alberta

CANADIAN PIONEER Land
Location
Gas Well
Dry & Abandoned Well



TWINING NORTH, Alberta

CANADIAN PIONEER Lands
Location
Oil Well
Gas Well
Dry & Abandoned Well
Oil & Gas Well
Abandoned Oil/Water Injection

Marketing

Canadian Pioneer continued to aggressively pursue the marketing of its gas reserves. In June 1988 the Corporation signed a new long term gas contract with Vector Energy Inc., whereby Canadian Pioneer will deliver 2.0 million cubic feet of gas per day for 20 years commencing in November 1989. The gas will go to a new co-generation facility owned and operated by Altresco Inc. of Denver, Colorado and located on a General Electric facility site at Pittsfield, Massachusetts, U.S.A.

The contract has a base price of $1.10 (U.S.) per MCF, with potential monthly price escalations directly related to the prices of fuel oil, natural gas and coal in the Eastern United States. The total contract size for the six company group, in which the Corporation is a participant, is 31.5 million cubic feet per day, with a potential increase of 5.0 million cubic feet per day on an interruptible basis.

The financing for the co-generation plant is in place and contracts have been signed for construction of the plant and the turbines. Transportation for the gas through the U.S. and Canada has been obtained. Applications have been made for a Canadian export licence to the NEB, for an Alberta export licence to the ERCB, and for a U.S. import licence to the ERA. Approvals from these government agencies are usually dependent upon the commercial viability and the existance of sufficient gas reserves for the project. Vector is confident that such approvals will be obtained.

Canadian Pioneer sold gas in fiscal 1988 and is continuing to sell gas in fiscal 1989 to California under a three year contract with Bonus Gas Processors Ltd. Up to 5.0 million cubic feet per day of the Corporation's gas along with that of working interest partners, was sold to California on an interruptible basis at wellhead prices ranging from $1.50 to $1.65 per MCF. Gas sales were made on an interruptible basis during the spring through fall seasons when pipeline capacity was available.

Short term spot sales of gas were also made during the year through various brokers. The Corporation's major gas reserves in the Birch-Wavy area in East-Central Alberta, continue to be marketed through Western Gas Marketing Ltd., mainly to Eastern Canadian markets.

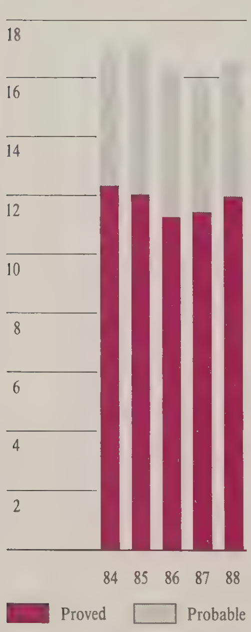
Reserves

Canadian Pioneer's major oil and gas reserves, representing approximately 80 percent of the total reserves, were evaluated by Coles Nikiforuk Pennell Associates Ltd., as at July 1, 1988. The minor reserves, which comprise approximately 20 percent of the total, were evaluated by Keewatin Management Co. Ltd., as at July 1, 1988.

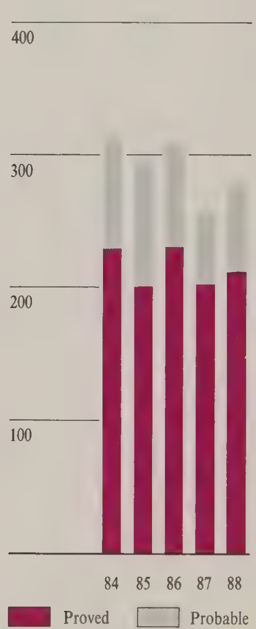
Total reserves increased slightly from 1987 to 1988, with gas reserves up by 4% and oil reserves up by 9%.

	Reserves Before Royalties				*Discounted Value of Estimated Future Net Revenues Before Income Taxes - $ millions*					
	Gas-BCF		*Oil & NGL's-mbls*		*0%*		*10%*		*15%*	
	1988	1987	**1988**	1987	**1988**	1987	**1988**	1987	**1988**	1987
Proved Producing	**6.683**	6.506	**193.5**	200.1	**$16.026**	$17.834	**$ 9.423**	$ 9.423	**$ 7.743**	$ 7.480
Proved Nonproducing	**5.207**	4.988	**15.7**	0.9	**13.356**	13.636	**5.588**	4.556	**4.032**	3.050
Total Proved	**11.890**	11.494	**209.2**	201.0	**29.382**	31.470	**15.011**	13.979	**11.775**	10.530
Probable	**4.591**	4.391	**67.0**	52.9	**15.341**	17.296	**5.955**	4.924	**4.150**	3.181
Total Company	**16.481**	15.885	**276.2**	253.9	**$44.723**	$48.766	**$20.966**	$18.903	**$15.925**	$13.711

Natural Gas Reserves
(bcf)



Crude Oil Reserves
(mstb)



Financial Review

Canadian Pioneer significantly improved its financial condition in 1988. The year end cash balance was $1.9 million compared to a $400,000 deficit in 1987; working capital was $1.1 million compared to a deficiency of $600,000; and long term debt was reduced to $3 million from $5.25 million. At June 30, 1988 the debt:equity ratio was a healthy .56:1.

Operating results for 1988 were also significantly improved. Gross revenue of $2.7 million was a 64% increase from the $1.7 milion reported last year and funds from operations were $904,000 compared to $27,000, or 28¢ per share vs 1¢ last year.

These improvements occurred despite the fact that gas prices softened in fiscal 1988. The average price received per mcf of gas sold was $1.40 vs $1.76. This reduced gas price, however, did cause the realizable value of the Corporation's proved reserves to be reduced to the point that a writedown of the natural gas properties was necessary this year.

At the September 30, 1987 Annual and Special Meeting of Shareholders the shareholders approved the consolidation of the Corporation's common shares on a 1 for 4 basis and approved the restatement of the Corporation's common share capital thereby allowing for the future payment of dividends. (Concurrent with these changes was the change in corporate name from Canadian Pioneer Oils Ltd.). In 1988 the Corporation paid the arrear dividends of $36,000 and paid the 1988 dividends of $548,000.

Contributing to the improved financial condition was the successful issuance in August 1987 of 600,000 Second Preference, Series A Shares and 500,000 Gold Purchase Warrants. The issue provided net proceeds of $5.3 million. $810,000 was also raised by the issuance of 840,000 flow through common shares. These funds were partially directed to the 1988 capital program of $2.3 million and the reduction of long term debt and preferred share obligations.

Canadian Pioneer's improved financial condition is buoyed by its $9 million in available tax pool balances. These tax pools will allow the Corporation to continue to operate without income tax burdens for an indefinite time period. They will also provide the Corporation the opportunity to continue to utilize flow through share financing without eroding its tax pools so long as such financing can be arranged economically.

Consolidated Balance Sheet

ASSETS	June 30 1988	1987
CURRENT ASSETS		
Cash and term deposits	**$ 1,941,388**	$ -
Accounts receivable (note 1)	**1,136,912**	586,211
Prepaid expenses	**10,000**	159,584
	3,088,300	745,795
PROPERTY, PLANT AND EQUIPMENT (note 2)	**8,978,706**	8,567,308
OTHER ASSETS (note 3)	**1,099,000**	199,000
	$13,166,006	$ 9,512,103

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank advances (note 4)	**$ -**	$ 385,715
Accounts payable and accrued liabilities	**988,565**	1,001,767
Current portion of long term debt	**1,000,000**	-
	1,988,565	1,387,482
LONG TERM DEBT (note 4)	**3,000,000**	5,250,000
DEFERRED REVENUE	**1,065,948**	77,615
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	**8,691,552**	7,750,247
Deficit	**(1,580,059)**	(4,953,241)
	7,111,493	2,797,006
	$13,166,006	$ 9,512,103

APPROVED ON BEHALF OF THE BOARD:

J. W. Pegherley Director

Director

Consolidated Statement of Operations

	Year ended June 30	
	1988	1987
Revenue		
Petroleum and natural gas sales	**$2,439,411**	$1,668,142
Royalties	**(213,845)**	(133,085)
	2,225,566	1,535,057
Interest income	**290,278**	-
	2,515,844	1,535,057
Expenses		
Operating	**650,309**	491,343
	1,865,535	1,043,714
General and administrative	**442,554**	441,289
Interest on long term debt	**519,082**	575,096
Funds from operations	**903,899**	27,329
Depletion and depreciation	**900,000**	538,637
Write down of petroleum and natural gas properties	**1,000,000**	-
Loss before extraordinary item	**(996,101)**	(511,308)
Extraordinary item		
Loss on sale of U.S. operations	**-**	(145,177)
LOSS FOR THE YEAR	**$ (996,101)**	$ (656,485)
PER COMMON SHARE AMOUNTS (note 6)		
LOSS		
Before extraordinary item	**$(0.48)**	$(0.20)
After extraordinary item	**$(0.48)**	$(0.25)
FUNDS FROM OPERATIONS		
Before dividends on preference shares	**$ 0.28**	$ 0.01
After dividends on preference shares	**$ 0.11**	$(0.02)

Consolidated Statement of Deficit

	Year ended June 30	
	1988	1987
Deficit at beginning of year	**$(4,953,241)**	$(4,260,506)
Reduction of stated capital (note 5)	**4,953,241**	-
Loss for the year	**(996,101)**	(656,485)
Dividends paid on preference shares	**(583,958)**	(36,250)
DEFICIT AT END OF YEAR	**$(1,580,059)**	$(4,953,241)

Consolidated Statement of Changes in Financial Position

	Year ended June 30 **1988**	1987
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Funds from operations	**$ 903,899**	$ 27,329
Change in non-cash working capital and deferred production revenue	**(247,410)**	(105,286)
	656,489	(77,957)
FINANCING		
Issuance of preference shares	**5,284,546**	-
Issuance of gold purchase warrants	**1,000,000**	-
Issuance of common shares	**810,000**	355,000
Notes receivable	**100,000**	73,139
Repayment of long term debt	**(1,250,000)**	(400,000)
Dividends paid on preference shares	**(583,958)**	(36,250)
Redemption of preference shares	**(200,000)**	-
Change in non-cash working capital	**16,251**	-
	5,176,839	(8,111)
INVESTMENTS		
Additions to property, plant and equipment	**(2,311,398)**	(848,883)
Gold purchase warrant	**(1,000,000)**	-
Proceeds on sale of U.S. operations	**-**	615,471
Change in non-cash working capital	**(194,827)**	140,973
	(3,506,225)	(92,439)
INCREASE (DECREASE) IN CASH POSITION	**2,327,103**	(178,507)
CASH POSITION AT BEGINNING OF YEAR	**(385,715)**	(207,208)
CASH POSITION AT END OF YEAR	**$1,941,388**	$(385,715)

Cash position is defined as cash and term deposits net of bank advances.

Auditor's Report

To the Shareholders of Canadian Pioneer Energy Inc.

We have examined the consolidated balance sheet of Canadian Pioneer Energy Inc. as at June 30, 1988 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at June 30, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
August 26, 1988

Thorne Ernst & Whinney

Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended June 30, 1988

General

The Corporation is incorporated under the Business Corporations Act (Alberta). At June 30, 1988 Northgate Exploration Limited was the Corporation's parent ("the former parent company"). On July 5, 1988 the shares held by Northgate were acquired by Argyll Energy Corporation ("the new parent company").

Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Pioneer Energy Inc. and its wholly owned subsidiary, Frontier Canadian Oils as well as the Corporation's proportionate share of the assets, liabilities, revenues and expenses of joint ventures.

(b) Property, Plant and Equipment

The Corporation follows the full cost method of accounting for petroleum and natural gas operations in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs of acquisition, exploration for and development of petroleum and natural gas reserves are capitalized on a country by country basis. Costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and nonproductive wells and related overhead expenditures.

The net carrying value of the Corporation's petroleum and natural gas properties is limited to an ultimate recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of unproved properties net of impairment allowances, less future estimated overhead expenses, financing costs and income taxes. Future net revenues are calculated using year-end prices without escalation or discounting.

Gains or losses are recognized upon the sale or disposition of property only when the petroleum and natural gas reserves of the disposed property are significant in relation to the total reserves in the cost centre.

(c) Depletion and Depreciation

Depletion and depreciation of petroleum and natural gas properties, plant and equipment is provided using the unit of production method based upon estimated proved gross reserves as determined by independent consultants. Costs of unproved properties are excluded from the depletion calculation until it is determined whether proved reserves exist or impairment occurs. In calculating depletion and depreciation, crude oil reserves are converted to equivalent units of natural gas based on the relative sales value of each product.

Depreciation of other property, plant and equipment is provided using a declining balance basis over the estimated life of each asset at annual rates varying from 10% to 30%.

(d) Royalties

Royalties on petroleum and natural gas sales are stated net of the Alberta Royalty Tax Credit.

1. Accounts Receivable

Accounts receivable are comprised of:

	June 30	
	1988	1987
Trade receivable	**$ 544,693**	$488,311
Government grants	**277,756**	-
Flow through share funds receivable	**200,000**	-
Receivable from affiliated company	**114,463**	97,900
	$1,136,912	$586,211

2. Property, Plant and Equipment

	June 30	
	1988	1987
Petroleum and natural gas properties, at cost	**$12,871,930**	$10,560,532
Accumulated depletion and depreciation	**3,893,224**	1,993,224
	$ 8,978,706	$ 8,567,308

As at June 30, 1988, petroleum and natural gas properties include $1,241,000 (June 30, 1987 -$1,197,000) relating to unproved properties which have been excluded from depletion calculations.

During the year, the Corporation capitalized $303,000 (1987 - $206,000) of overhead costs directly related to acquisition, exploration and development activities.

During the year ended June 30, 1988, Canadian Exploration and Development Incentive Program grants in the amount of $525,847 were earned and applied to reduce property, plant and equipment.

3. Other Assets

Other assets are comprised of:

	June 30	
	1988	1987
Right to acquire gold	**$1,000,000**	$ -
Note receivable	**99,000**	199,000
	$1,099,000	$199,000

In connection with the issuance of Second Preference, Series A Shares, the Corporation issued 500,000 Gold Purchase Warrants which entitle the holders to purchase 10,000 ounces of gold from the Corporation at U.S. $550.00 per troy ounce until May 31, 1990. The proceeds of $1,000,000 on the issue of the warrants have been recorded as deferred revenue. Concurrent with the issuance of the Gold Purchase Warrants, the Corporation entered into a contract which entitles the Corporation to purchase 10,000 ounces of gold at U.S. $550.00 per troy ounce until May 31, 1990. The cost of this right has been recorded as an asset.

The non-interest bearing note receivable is secured and has fixed repayment terms.

4. Long Term Debt

	June 30 1988	1987
Bank loan	**$4,000,000**	$5,250,000
Less amount due within one year	**1,000,000**	-
	$3,000,000	$5,250,000

A demand revolving operating line of credit in the amount of $500,000 has been established with the Corporation's bank. Bank advances and the bank loan bear interest at the bank's prime rate plus 3/4% and are secured by petroleum and natural gas interests.

At June 30, 1988 the bank has issued an irrevocable letter of credit in the amount of $107,000 in respect of a gas marketing agreement.

Based upon the existing loan agreement and the balance outstanding at June 30, 1988, the estimated payments until maturity would be as follows: 1989 - $1,000,000, 1990 - $1,000,000, 1991 - $1,000,000, 1992 - $1,000,000.

5. Capital Stock

At the Annual and Special Meeting of Shareholders held on September 30, 1987, the Common Shares of the Corporation were consolidated on a one-for-four basis. All share and per share data presented in the accompanying financial statements and notes reflect retroactively the one-for-four share consolidation.

Authorized

8,000,000 First Preference Shares, issuable in series
20,000,000 Second Preference Shares, issuable in series
100,000,000 Class A Common Shares, no stated value

Issued

	June 30 1988	1987
21,000 First Preference, Series A Shares (1987 - 21,000)	**$ 505,613**	$ 505,613
Nil First Preference, Series B Shares (1987 - 8,000)	-	200,000
598,900 Second Preference, Series A Shares (1987 - Nil)	**5,274,846**	-
3,791,530 Common Shares (1987 - 2,944,591)	**2,911,093**	7,044,634
	$8,691,552	$7,750,247

(a) First Preference, Series A Shares

The First Preference, Series A Shares, with a stated value of $25 per share, carry a 10% cumulative dividend, payable quarterly. These shares are non-voting unless the Corporation has failed to pay dividends for six quarters, whether or not consecutive.

The Corporation may redeem the First Preference, Series A Shares at any time provided that the market price of the Common Shares on the date of notice to redemption exceeds $4.55 per share. The First Preference, Series A Shares are redeemable at $25.50 per share to June 30, 1989, thereafter declining annually by $0.25 until June 30, 1991. The Corporation is obliged to make all reasonable efforts to purchase for cancellation 1-1/2% of the issued and outstanding First Preference, Series A Shares quarterly.

(b) First Preference, Series B Shares

During the year ended June 30, 1988, the Corporation redeemed all of the First Preference B Shares for cash consideration of $200,000.

(c) Second Preference, Series A Shares

In August 1987, the Corporation issued 500,000 Units, each Unit consisting of one Second Preference, Series A Share and one Gold Purchase Warrant for proceeds of $5,284,546 (net of issue costs of $715,454). Concurrently, the Corporation issued to the former parent company 100,000 Second Preference, Series A Shares for proceeds of $1,000,000.

The Second Preference, Series A Shares, with a stated value of $10 per share, carry a fixed cumulative cash dividend of $.96 per annum payable quarterly and an additional dividend payable on the last day of March of any year following a calendar year in which the average daily price of Saudi Arabian Light Crude oil exceeds U.S. $22.00 per barrel. Such additional dividend shall be equal to the Canadian dollar equivalent of 10% of the amount by which the average daily price of Saudi Arabian Light Crude oil for each year exceeds U.S.$22.00 per barrel.

These non-voting shares may be converted into Common Shares of the Corporation at any time up to May 31, 1994, at the option of the holder. The conversion price is $1.52 per Common Share up to May 31, 1991 and $1.90 per Common Share thereafter.

The Corporation may redeem the Second Preference, Series A Shares at any time after March 31, 1990 provided that the current market price of the Common Shares on the date of notice of redemption exceeds 125% of the conversion price then in effect. The redemption price is $12.00 per share together with all accrued and unpaid dividends.

During the year ended June 30, 1988, 1,100 Second Preference, Series A Shares were converted to 7,260 Common Shares of the Corporation.

(d) Common Shares

Changes in Common Shares for each of the two years ended June 30, 1988 are as follows:

	1988		1987	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**2,944,591**	**$7,044,634**	2,722,568	$6,689,634
Reduction of stated capital	**-**	**(4,953,241)**	-	-
Shares issued				
On conversion of Second Preference, Series A Shares	**7,260**	**9,700**	-	-
For services rendered	**-**	**-**	37,500	45,000
For flow through exploration expenditures	**839,679**	**960,000**	184,523	310,000
CEDIP grants paid to flow through share subscribers	**-**	**(150,000)**	-	-
Balance, end of year	**3,791,530**	**$2,911,093**	2,944,591	$7,044,634

At the Annual and Special Meeting of Shareholders held on September 30, 1987, the shareholders approved a reduction in the stated capital of the Common Shares of the Corporation by such an amount as to eliminate the Corporation's deficit at June 30, 1987.

During the year ended June 30, 1988, the Corporation agreed to issue 723,186 common shares at an average price of $1.10 per share for flow through exploration expenditures. The Corporation issued 839,679 shares pursuant to these and prior agreements. The proceeds of these share issues have been used exclusively for petroleum, natural gas and mineral exploration purposes in Canada. The purchasers of the shares acquired the rights to oil related income tax benefits arising from the expenditures. The purchasers of 473,183 shares were entitled to the Canadian Exploration and Development Incentive Program grants.

(e) Common Shares Reserved

3,940,000 Common Shares are reserved for the conversion of Second Preference, Series A Shares.

Options to purchase 313,750 Common Shares are outstanding, exercisable from time to time to November, 1990 at $1.32 per share.

A warrant to purchase 250,000 Common Shares at $1.00 per share at any time before December 31, 1990 is held by the former parent company.

6. Per Common Share Amounts

The per Common Share amounts are calculated using the weighted average number of Common Shares outstanding during the year ended June 30, 1988 of 3,215,983 (1987 - 2,927,741) and after deducting dividend entitlements of preference shares. The fully diluted loss per Common Share and funds from operations per Common Share are anti-dilutive.

7. Income Taxes

The provision for income taxes in 1988 and 1987 differ from the amounts that would have resulted had the Canadian federal statutory tax rate been applied to the loss before extraordinary item:

	Year ended June 30	
	1988	1987
Computed income tax recovery at statutory tax rate	**$(448,200)**	$(235,202)
Increase (decrease) resulting from:		
Non-deductible crown charges	**87,800**	60,410
Alberta Royalty Tax Credit	**(73,200)**	(35,074)
Resource allowance	**(49,000)**	(65,328)
Non-deductible depletion, depreciation and write down	**222,000**	60,021
Losses not currently utilized	**260,600**	215,173
Provision for income taxes	**$ -**	$ -

8. Related Party Transactions

The Corporation entered into a contract with a subsidiary of the former parent company which entitles the Corporation to purchase 10,000 ounces of gold at U.S. $550 per troy ounce until May 31, 1990. (Refer to note 3).

The Corporation issued a warrant to the former parent company in consideration for services rendered. (Refer to note 5(e)).

At June 30, 1988 accounts payable and accrued liabilities includes an amount of $81,113 due to the former parent company.

Five Year Financial Review

Years Ended June 30, 1988

	1988	1987	1986	1985	1984
Operating results ($000's)					
Net oil and gas revenue	**$ 2,226**	$ 1,535	$ 2,786	$ 3,056	$ 688
Other revenue	**290**	-	-	-	-
	2,516	1,535	2,786	3,056	688
Operating expense	**650**	491	689	631	168
General and adminstrative	**443**	441	579	597	417
Interest expense	**519**	575	661	739	514
Funds from operations	**904**	28	857	1,089	(411)
Depletion and depreciation	**1,900**	539	3,038	761	143
Income (loss) before extraordinary items	**(996)**	(511)	(2,181)	328	(554)
Extraordinary items	-	(145)	-	-	-
Net income (loss)	**(996)**	(656)	(2,181)	328	(554)
Preferred share dividends	**584**	36	73	55	53
Income (loss) attributable to common shareholders	**$ (1,580)**	$ (692)	$ (2,254)	$ 273	$ (607)
Per share data					
Basic net income per common share after dividends	**$ (0.48)**	$ (0.20)	$ (0.84)	$ 0.12	$ (0.84)
Basic funds from operations per common share					
- before dividends	**$ 0.28**	$ 0.01	$ 0.32	$ 0.43	$ (0.53)
- after dividends	**$ 0.11**	$ (0.02)	$ 0.29	$ 0.41	$ (0.59)
Financial position ($000's)					
Working capital (deficiency)	**$ 1,100**	$ (641)	$ (655)	$ 499	$ (143)
Net property, plant and equipment	**8,979**	8,567	9,251	10,707	9,155
Total assets	**13,166**	9,512	10,197	11,984	9,953
Total debt	**4,000**	5,250	5,400	6,150	5,650
Shareholders' equity	**7,111**	2,797	3,135	4,947	2,908
Debt/Total assets	**.30:1**	.55:1	.53:1	.51:1	.57:1
Debt/Shareholders's equity	**.56:1**	1.88:1	1.72:1	1.24:1	1.94:1
Capital expenditures ($000's)	**$ 2,311**	$ 849	$ 1,631	$ 1,271	$ 507
Number of shares outstanding:					
Common	**3,791,530**	2,944,591	2,722,569	2,613,737	2,470,668
First Preferred - Series A	**21,000**	21,000	21,000	21,000	21,000
First Preferred - Series B	-	8,000	8,000	8,000	-
Second Preferred - Series A	**589,900**	-	-	-	-

Five Year Operating Review

Years Ended June 30, 1988

	1988	1987	1986	1985	1984
Working interest production (before royalties)					
Natural gas (mmcf/d)	**3.3**	2.1	2.4	2.1	0.7
Oil (bbls/d)	**82**	51	71	84	3
Drilling activity (gross wells)					
Oil	**5**	3	8	8	3
Gas	**8**	6	12	11	7
Dry	**15**	3	11	12	5
	28	12	31	31	15
Working interest reserves (Proved plus probable)					
Oil and NGLs (mbbls)	**276.2**	253.9	306.9	293.5	312.0
Natural Gas (bcf)	**16.5**	15.9	16.3	17.0	16.8
Undeveloped land holdings (thousands of acres)					
Gross	**70.4**	70.7	274.5	294.6	308.4
Net	**25.7**	25.2	49.5	54.6	65.5

Corporate Information

Directors

James W. Beckerleg
W. Gordon Black
Sylvester P. Boland
Alex S. Cathcart
James H. Coleman
Patrick D. Downey
David H. Erickson
Bernard F. Kelly

Officers and Senior Management

James W. Beckerleg
Chairman of the Board
and Chief Financial Officer
Gary A. Tahmazian
President
Patrick D. Downey
Vice-President & Treasurer
David H. Erickson
Vice-President Exploration
John G. Goemans
Vice-President Production and Engineering
William J. Kiff
Vice-President Land
Richard R. Kines
Vice-President Finance & Secretary

Auditors

Thorne Ernst & Whinney

Legal Counsel

Macleod Dixon

Bankers

The Bank of British Columbia
A division of the Hong Kong Bank of Canada

Office

Executive and Head Office
1800, 717 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z3
Telephone: (403) 265-9471
Fax: (403) 264-2194

Registrar and Transfer Agent

For Common & Preference Shares
The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 1R4

For Gold Purchase Warrants
Central Trust
Main Branch
1 First Canadian Place
P.O. Box 38
Toronto, Ontario M5X 1G4

Stock Exchange Listing

The Alberta Stock Exchange
Common Share Symbol: "CEQ"
Preferred Share Symbol: "CEQ Pr. A"